

Message Text

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FM AMCONSUL JERUSALEM

TO SECSTATE WASHDC IMMEDIATE 7324

C O N F I D E N T I A L SECTION 1 OF 3 JERUSALEM 1376

EXDIS HANDLE AS NODIS

FOR ENDERS (EB) AND LEWIS (S/P) FROM LORD

E.O. 11652: GDS

TAGS: PFOR, ENG, UNGA

SUBJECT: SECRETARY'S UNGA SPEECH: COMMODITIES SECTION

FOLLOWING IS THE TEXT OF THE COMMODITIES SECTION.
THIS COMPLETES THE ENTIRE DRAFT OF THE SPEECH. THIS
SECTION NEEDS A GREAT DEAL OF WORK, AS FORESHADOWED
IN YESTERDAY'S CABLE AND INDICATED BELOW.

1. BEGIN TEXT. COMMODITIES

NO ECONOMIC ISSUE IS OF GREATER CONCERN TO THE DEVELOPING
NATIONS THAN THE SUBJECT OF COMMODITIES.

2. THE NON-OIL PRODUCING COUNTRIES RELY ON PRIMARY
COMMODITIES FOR ALMOST TWO THIRDS OF THEIR EXPORT
EARNINGS. YET THE PRODUCTION, DEMAND, AND PRICES
OF THESE MATERIALS ARE PARTICULARLY UNSTABLE, AND THE
LOCATION OF THEIR PROCESSING IS OFTEN GROSSLY
INEFFICIENT. THE DEVELOPING COUNTRIES' SALES OF
RAW MATERIALS HAVE NOT GROWN AS FAST AS THOSE OF THE
INDUSTRIAL COUNTRIES; THEIR EXPORTS OF AGRICULTURAL
PRODUCTS HAVE LAGGED. THE UNRELIABILITY OF EARNINGS
FROM COMMODITY TRADE IMPEDES AND DISRUPTS DEVELOPMENT
PLANS.

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2A. THE INDUSTRIAL COUNTRIES TOO HAVE AN URGENT INTEREST IN

COMMODITIES. THEY ACCOUNT FOR (BLANK) OF THEIR PRODUCTION AND (BLANK) OF EXPORTS. FURTHERMORE, THE IMPACT OF HIGHT PRICES ON THE ECONOMIC STRUCTURE IN PERIODS OF SHORTAGE LINGERS LONG AFTER THE COMMODITY MARKET HAS TRUNED AROUND.

3. THEREFORE, THERE IS A SHARED INTEREST AMONG ALL COUNTRIES IN SOLVING THESE PROBLEMS.

4. THE MOST VITAL COMMODITY OF ALL, OF COURSE, IS FOOD. THE SUPPLY AND PRICE OF FOOD AFFECTS EVERYONE ON THIS PLANET. THE LONG TERM SOLUTION IS TO INCREASE PRODUCTION IN THE DEVELOPING COUNTRIES. IN THE NEAR TERM THE WORLD WILL CONTINUE TO NEED LARGE TRANSFERS OF AID. BUT NOW, AND FOR THE FORSEEABLE FUTURE, THE WORLD WILL NEED AN EFFECTIVE SYSTEM OF FOOD SECURITY.

5. FOR HUNDREDS OF MILLIONS OF PEOPLE, FOOD SECURITY IS THE SINGLE MOST CRITICAL NEED IN THEIR LIVES; FOR MANY IT IS A QUESTION OF LIFE ITSELF. BUT FOOD SECURITY REQUIRES MORE THAN DISASTER RELIEF TO DEAL WITH CROP FAILURES, NATURAL DISASTERS AND POCKETS OF FAMINE. IT CALLS FOR REASONABLE STABILITY IN THE AVAILABILITY OF FOOD IN COMMERCIAL MARKETS, SO THAT HARVEST FAILURES IN SOME PARTS OF THE WORLD WILL NOT MAKE FOOD IMPORTS IMPOSSIBLY EXPENSIVE ELSEWHERE.

5. THE UNITED STATES, AS THE WORLD'S LARGEST FOOD PRODUCER BY FAR, RECOGNIZES ITS RESPONSIBILITY. WE HAVE SOUGHT TO MAKE COOPERATION IN THIS AREA A MODEL FOR REALISTIC AND COOPERATIVE ACTION ON OTHER INTERNATIONAL ECONOMIC ISSUES. AND WE BELIEVE OUR APPROACH TO THE ISSUE OF FOOD SECURITY CONTAINS MANY PRINCIPLES THAT CAN APPLY TO OTHER COMMODITIES AS WELL.

6. AT THE WORLD FOOD CONFERENCE LAST NOVEMBER IN ROME WE PROPOSED AN INTERNATIONAL SYSTEM OF RESERVES, NATIONALLY HELD, TO ENSURE ADEQUATE FOOD SUPPLIES DESPITE FLUCTUATIONS IN PRODUCTION. WE BELIEVED THAT THROUGH INTERNATIONAL AGREEMENT ON THE MANAGEMENT OF FOOD BUFFER STOCKS, WE CULD

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ASSURE THE WORLD A MORE FLOURISHING MARKET FOR FOOD, MORE AVAILABLE FOOD SUPPLIES FOR EMERGENCIES, AND GREATER STABILITY IN WORLD FOOD PRICES FOR CONSUMERS. (COMMENT: WE NEED A MUCH BETTER INTRODUCTION SECTION THAN THAT CONTAINED ABOVE. THERE MUST BE AN ELEVATED LEAD-IN ON COMMODITIES IN GENERAL AND THE PROBLEMS WE ARE TRYING TO SOLVE. THEN THE INTRODUCTORY PART ON FOOD MUST CONVINCINGLY DEMONSTRATE WHY IT'S IN THIS

SECTION, I.E. HOW OUR APPROACH TO FOOD CAN SERVE AS AN
EXAMPLE OF HOW OTHER COMMODITIES CAN BE HANDLED. THEN
THE NEXT SECTION ON RESERVES SHOULD FLOW FROM THIS,
BUT WITH A CLEAR EXPLANATION OF WHAT WE ARE TRYING
TO ACCOMPLISH -- FOR BOTH FOREIGN AND US AUDIENCES.
THE SPECIFIC ELEMENTS OF THE RESERVE SCHEME WON'T
MAKE SENSE UNLESS THERE IS A BETTER EXPLANATION OF THEIR
PURPOSE.)

7. SINCE THE WORLD FOOD CONFERENCE, WE HAVE ELABORATED
OUR PROPOSALS. BUT NEGOTIATIONS ON THESE PROPOSALS BEGAN
TO LAG WHEN IMPROVED HARVESTS SEEMED TO DIMINSH THE
IMMEDIATE DANGERS OF WORLD STARVATION. WE MUST NOT BE
LULLED BY TEMPORARY GAINS DUE SOLELY TO THE BENEVOLENCE
OF NATURE. IT IS TIME TO ACT BEFORE ANOTHER CRISIS
IS UPON US.

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C O N F I D E N T I A L SECTION 2 OF 3 JERUSALEM 1376

EXDIS HANDLE AS NODIS

FOR ENDERS (EB) AND LEWIS (S/P) FROM LORD

E.O. 11652: GDS

TAGS: PFOR, ENG, UNGA

SUBJ: SECRETARY'S UNGA SPEECH: COMMODITIES SECTION

8. THE UNITED STATES IS READY TO MOVE AHEAD RAPIDLY.
SPECIFICALLY, LET US REACH AGREEMENT SOON ON THE
FOLLOWING ELEMENTS OF A GRAIN RESERVE SYSTEM. (COMMENT:
THE FOLLOWING HAS NO PURPOSE AS OF NOW. NOR IS IT IN
ENGLISH.)

-- WHEAT RESERVES OF 30 MILLION TONS. THIS FIGURE, IF SUPPORTED BY SOME ARRANGEMENTS IN COARSE GRAINS, WOULD COVER THE SHORTFALLS THAT HAVE OCCURRED IN 19 OUT OF THE LAST 20 YEARS. (QUERY: I THOUGHT THE FIGURE WAS 60 MILLION TONS FOR ALL GRAINS. IS THIS A BUREAUCRATIC RETREAT? IF SO, THE SECRETARY DESERVES TO BE TOLD. THIS IS A GENERAL PRINCIPLE TO BE FOLLOWED, E.G. REPLENISHING THE ASIAN DEVELOPMENT BANK WHICH WAS OMITTED EITHER INADVERTENTLY OR BUREAUCRATICALLY.)

-- AN OBJECTIVE STANDARD OR TRIGGER TO RELEASE RESERVE STOCKS TO PARTICIPANTS, AND TO SPUR NEW INCENTIVES TO MAXIMIZE FOOD AVAILABILITY.

-- ASSURED ACCESS TO SUPPLIES FOR THOSE COUNTRIES THAT PARTICIPATE IN THE RESERVE SYSTEM AND COMPLY WITH CONFIDENTIAL

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ITS PROVISIONS.

-- FULL EXCHANGE OF INFORMATION AND FORECASTS AMONG MAJOR PRODUCING COUNTRIES TO HELP ALL COUNTRIES PLAN MORE ADEQUATELY FOR FOOD SHORTAGES.

9. DEVELOPING COUNTRIES HAVE A ROLE IN THE SUCCESS OF THE INTERNATIONAL FOOD SECURITY SYSTEM. MANY OF THEM ARE MAJOR PRODUCERS OR CONSUMERS. YET WE RECOGNIZE THE PROBLEMS THEY HAVE IN FULLY PARTICIPATING. THEREFORE, WE PROPOSE TO GIVE THEM SPECIAL HELP IN HOLDING THEIR PORTION OF A GLOBAL FOOD RESERVE THROUGH FOOD AID OR FINANCING OF FOOD PURCHASES TO BUILD RESERVES. (COMMENT: HERE WE NEED A BRIDGE FROM FOOD TO OTHER COMMODITIES. THEN BEFORE GIVING SOLUTIONS WE MUST HAVE AN EXPLANATION OF THE PROBLEM. THE THEORETICAL SOLUTIONS SHOULD BE DISMISSED AND OUR PREFERENCES JUSTIFIED. AND THE URGENCY FOR DEVELOPING COUNTRIES SHOULD STAND OUT MORE.)

10. AN ESSENTIAL FACTOR FOR ALMOST ALL DEVELOPING COUNTRIES IS TRADE IN RAW MATERIALS AND OTHER PRIMARY COMMODITIES. WAYS MUST BE FOUND TO EXPAND THEIR PRODUCTION TO ENSURE ABUNDANT SUPPLIES FOR WORLDWIDE ECONOMIC GROWTH WHILE ALSO ENSURING STEADY INCOME FOR THE DEVELOPING COUNTRIES THAT PRODUCE THEM.

11. AFTER A THOROUGH REVIEW OF THE PROBLEM, MY GOVERNMENT PROPOSES THE FOLLOWING:

12. FIRST, WE SHOULD ASSURE ADEQUATE NEW INVESTMENT IN THE PRODUCTIVE CAPACITY OF DEVELOPING NATIONS.

(COMMENT: THE TREATMENT OF THIS FIRST ELEMENT ON PRODUCTION SHOULD BE BOILED DOWN INTO A COUPLE OF PARAGRAPHS.)

13. EVEN THE SERIOUS WORLD-WIDE RECESSION HAS NOT RELIEVED PRESSURES ON SUPPLIES AND HIGH PRICES FOR SOME RAW MATERIALS. FOR MOST BASIC RAW MATERIALS, HOWEVER, THERE ARE NO SHORAGES NOW; NOR ARE THEY LIKELY FOR TWO OR THREE YEARS. BUT FOR THESE COMMODITIES, CONFIDENTIAL

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INVESTMENT DECISIONS NOW WILL DETERMINE SUPPLIES FOR MANY YEARS TO COME. THE TECHNOLOGY NEEDED TO PROCESS LOWER GRADE ORES AND THE MASSIVE FINANCING NEEDED FOR MAJOR INVESTMENTS IN RAW MATERIALS MAKE THE LEAD TIMES BETWEEN THE BEGINNING AND COMPLETION OF INVESTMENTS VERY LONG. AND THEY ARE GROWING LONGER. IN ADDITION, IN SOME COUNTRIES THE TRADITIONAL SOURCE OF FUNDS -- PRIVATE FOREIGN INVESTMENT -- IS NO LONGER AS WELCOME, NOR ARE INVESTORS AS INTERESTED, AS IN THE PAST.

14. THE UNITED STATES THEREFORE PROPOSES THAT THE WORLD BANK AND ITS AFFILIATES, IN CONCERT WITH PRIVATE SOURCES, ASSUME A MAJOR ROLE IN ENCOURAGING AND PROVIDING INVESTMENT IN MINERALS IN DEVELOPING COUNTRIES. THE WORLD BANK GROUP CAN PROVIDE LIMITED AMOUNTS OF CAPITAL DIRECTLY. MORE IMPORTANTLY, IT CAN USE ITS TECHNICAL, MANAGERIAL AND FINANCIAL EXPERTISE TO BRING TOGETHER FUNDS FROM A VARIETY OF PRIVATE AND PUBLIC SOURCES. WHERE NECESSARY, IT CAN ACT AS INTERMEDIARY BETWEEN THE PRIVATE INVESTOR AND THE HOST GOVERNMENT. AND IT COULD LINK PRIVATE AND PUBLIC EFFORT BY PROVIDING CROSS GUARANTEES ON PERFORMANCE. (COMMENT: WHAT IS NEW HERE AND WHAT IN ANY EVENT IS THE SIGNIFICANCE.)

14A. EACH ELEMENT OF THE WORLD BANK GROUP SHOULD MAKE ITS APPROPRIATE CONTRIBUTION. THUS. WORLD BANK

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C O N F I D E N T I A L SECTION 3 OF 3 JERUSALEM 1376

EXDIS HANDLE AS NODIS

FOR ENDERS (EB) AND LEWIS (S/P) FROM LORD

LOANS COULD FUND GOVERNMENT PROJECTS, PARTICULARLY FOR THE NEEDED INFRASTRUCTURE, WHILE THE INTERNATIONAL FINANCE CORPORATION COULD JOIN PRIVATE ENTERPRISE IN PROVIDING LOANS AND EQUITY CAPITAL FOR RAW MATERIALS DEVELOPMENT. THE WORLD BANK GROUP SHOULD AIM AT MOBILIZING PRIVATE AND PUBLIC CAPITAL IN THE AMOUNT OF \$ (BLANK) BILLION A YEAR. THE UNITED STATES WILL SUPPORT A SUBSTANTIAL INCREASE IN THE CAPITAL OF THE IFC FOR THIS AND OTHER PURPOSES.

15. IN ADDITION, THE UNITED STATES WILL CONTRIBUTE TO AND ACTIVELY SUPPORT THE NEW UNITED NATIONS REVOLVING FUND FOR NATURAL RESOURCES EXPLORATION. BY STIMULATING EXPLORATION AND EXPLOITATION OF MINERALS THIS FUND WILL PROMOTE ONE OF THE MOST PROMISING AREAS OF ECONOMIC DEVELOPMENT.

16. THE SECOND ELEMENT OF OUR APPROACH TO COMMODITIES IS TO FIND NEW WAYS TO ENSURE STABILITY OF EARNINGS. AGRICULTURAL COMMODITIES ARE SUBJECT TO ENORMOUS FLUCTUATIONS IN SUPPLY DUE TO THE WEATHER. ALL COMMODITIES ARE VULNERABLE TO FLUCTUATIONS IN DEMAND FROM THE INDUSTRIAL COUNTRIES THAT PURCHASE THEM; MINERAL MARKETS ARE PARTICULARLY SENSITIVE TO DEMAND CHANGES IN RECESSIONS AND BOOMS. YET THESE ARE THE VERY PRODUCTS ON WHICH THE INCOMES AND DEVELOPMENT
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PLANS OF SCORES OF COUNTRIES ARE DEPENDENT. AND PRICE FLUCTUATIONS CREATE PARTICULAR PROBLEMS AS WELL -- UNEMPLOYMENT IN RAW MATERIALS INDUSTRIES; REDUCTIONS IN DEMAND AND UNEMPLOYMENT IN RELATED INDUSTRIES; AND COSTLY IDLE CAPACITY.

17. THERE IS NO GENERAL RULE THAT APPLIES EQUALLY TO ALL COMMODITIES. COPPER IS AS UNLIKE COFFEE, AS BAUXITE IS UNLIKE RUBBER. EACH REQUIRES ITS OWN APPROACH.

18. THE UNITED STATES THEREFORE PROPOSES THAT A CONSUMER-PRODUCER FORUM SHOULD BE ESTABLISHED FOR EVERY KEY RAW MATERIAL, TO DISCUSS HOW TO PROMOTE THE EFFICIENCY, THE GROWTH AND THE STABILITY OF ITS MARKET. THIS IS PARTICULARLY IMPORTANT IN THE CASE OF GRAINS, AS I HAVE OUTLINED. IT IS ALSO URGENT IN COPPER. (COMMENT: THEN WHY NOT PUT IT HERE?) WE BELIEVE THAT THE MOST EFFECTIVE WAY TO ENSURE FAIR MARKETS IN KEY COMMODITIES IS TO MODERATE INSTABILITY BY BUFFER STOCKS, RATHER THAN BY PRICE FIXING ARRANGMENTS WHICH DISTORT BOTH SUPPLY AND DEMAND. (COMMENT: THIS MAY BE TRUE, BUT IT ISN'T EVIDENT FROM THIS.)

19. AS I HAVE INDICATED ON AN EARLIER OCCASION, THE UNITED STATES IS PREPARED TO DISCUSS NEW ARRANGEMENTS IN INDIVIDUAL COMMODITIES ON A CASE-BY-CASE BASIS AS CIRCUMSTANCES WARRANT.

-- THE FIRST NEW INTERNATIONAL ARRANGEMENT TO BE CONCLUDED IS TIN. WE SUPPORT THAT AGREEMENT'S EMPHASIS ON BUFFER STOCKS. WE ARE CONCERNED, HOWEVER, THAT ITS PRODUCTION CONTROLS NOT BE USED EXCESSIVELY BUT ONLY IN EXTREME EMERGENCY SITUATIONS. THE UNITED STATES WILL IN ANY EVENT SIGN THE AGREEMENT AND SEEK ITS RATIFICATION.

-- WE WILL PARTICIPATE ACTIVELY IN NEGOTIATIONS ON COFFEE, IN THE HOPE THAT A NEW INTERNATIONAL AGREEMENT WILL REDUCE THE LARGE ANNUAL FLUCTUATION IN SUPPLY. MORE THAN A DECADE AGO, WHEN THE COFFEE

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MARKET WAS NEAR COLLAPSE, WE HELPED TO KEEP SUPPLY IN APPROXIMATE BALANCE WITH DEMAND AT REASONABLE PRICES. (QUERY: WHO IS "WE"?)

-- WE WILL PARTICIPATE ACTIVELY IN THE FORTHCOMING COCOA AND SUGAR NEGOTIATIONS, IN THE HOPE THAT HERE TOO WE WILL BE ABLE TO REACH AGREEMENTS. SUCH AGREEMENTS SHOULD BOTH REDUCE THE RISKS OF INVESTMENT AND MODERATE THE SWINGS IN SUPPLIES. (COMMENT: ALL THIS WOULD BE OK IF ONE UNDERSTOOD THE PROBLEMS IT IS ADDRESSING.)
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